

# RBI likely to raise repo rate by 0.25%

With food prices showing no signs of abatement, the Reserve Bank of India ([RBI](#)) is likely to raise its key policy rate by 0.25 per cent on Wednesday, the third straight increase under Governor Raghuram Rajan as part of the war against [inflation](#).

The Wholesale Price Index (WPI)-based inflation in November climbed to a 14-month high of 7.52 per cent as prices of food items such as onions and potatoes surged. Consumer Price Index (CPI)-based inflation touched a nine-month high of 11.24 per cent last month.

Factory output shrank 1.8 per cent in October, the first contraction in the Index of Industrial Production (IIP) in four months.

“Crucially, core inflation as well as non-food manufacturing inflation rose marginally in November. As a result of rising price pressures, RBI is likely to raise the [repo rate](#) by 0.25 per cent to eight per cent on December 18 in its monetary policy review, despite a still-shrinking industrial sector,” CRISIL said. Given the price rises at both the retail and wholesale levels, RBI, with inflation control as its prime objective, is set to hike the repo rate once again later this week, it said.

Axis Bank Chief Economist Saugata Bhattacharya believes the probability of a 25 basis-point rate hike is more, but “a 50 basis point rate hike is not off the table”.

However, Indian Overseas Bank Chairman and Managing Director M Narendra said RBI could maintain status quo in its mid-quarter review if it perceives [food inflation](#) moderating in the coming days with improved foodgrain production.

RBI Governor Rajan, who delivered two repo rate hikes of 0.25 per cent each in as many policy reviews since he took over on September 4, had mentioned he considered fighting inflation as the central bank's “key responsibility”.

According to Leif Lybecker Eskesen, HSBC chief economist for India and Asean, while improved food supplies may help reduce food inflation in coming months, the sticky and high CPI headline and core inflation is testament to the strong underlying inflation pressures in the economy. RBI will likely deliver another 25 basis-point rate hike in the upcoming policy review, he said.

Bank of America-Merrill Lynch concurred, saying a 0.25 per cent hike on December 18 is a “done deal” and adding along with the hike, RBI could also seal the shift of the money market to the repo mode from the marginal standing facility.

***(Business Standard)***